

# AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA

DECEMBER 31, 2013



## KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
DECEMBER 31, 2013

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MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
DECEMBER 31, 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
JOHN DOCK	CHAIRMAN
JEFF ELLER	VICE-CHAIRMAN
JERRY LUCE	SECRETARY/TREASURER
TERRY GATTENBY	MEMBER
HOWARD WHATLEY	MEMBER

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Muskogee County Rural Water District #3  
Council Hill, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Muskogee County Rural Water District #3, as of and for the fiscal year ended December 31, 2013, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of

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significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Muskogee County Rural Water District #3 as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Muskogee County Rural Water District #3 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

### *Supplementary and Other Information*

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

## *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2014, on our consideration of the Muskogee County Rural Water District #3's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County Rural Water District #3's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

March 21, 2014

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013

	2013	Memo Only 2012
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 32,763	\$ 28,320
Accounts Receivable	45,593	48,146
Prepaid Insurance	6,366	6,626
Total Current Assets	<u>84,721</u>	<u>83,091</u>
<b><u>RESTRICTED ASSETS:</u></b>		
Cash and Cash Equivalents:		
Renters Deposits	1,238	1,289
Cash in Trust Fund:		
Construction Account	15,389	27,997
Sinking Fund	11,587	11,932
Reserve Fund	140,553	140,553
Total Restricted Assets	<u>168,766</u>	<u>181,771</u>
<b><u>PROPERTY, PLANT &amp; EQUIPMENT:</u></b>		
Land	1,000	1,000
Construction in Progress	-	1,148,278
Water System & Lines	2,554,380	1,389,883
Maintenance Equipment	29,806	29,806
Automatic Meter Reading System	72,600	72,600
Office Furniture & Equipment	13,572	13,572
Less: Accumulated Depreciation	(788,324)	(722,717)
Net Property, Plant & Equipment	<u>1,883,034</u>	<u>1,932,422</u>
<b><u>OTHER ASSETS:</u></b>		
Loan Costs	91,490	91,490
Less: Accumulated Amortization	(31,005)	(24,906)
Total Other Assets	<u>60,485</u>	<u>66,584</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,197,006</u></u>	<u><u>\$ 2,263,869</u></u>
<b><u>LIABILITIES &amp; NET POSITION</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Interest Payable	\$ 8,950	\$ 9,081
Renter Deposits	1,000	1,000
Accounts Payable	1,075	-
Current Maturities of Long-Term Debt	30,000	30,000
Total Current Liabilities	<u>41,025</u>	<u>40,081</u>
<b><u>LONG-TERM LIABILITIES:</u></b>		
Revenue Bonds Payable	1,660,000	1,690,000
Less: Unamortized Discount on Bonds Payable	(44,601)	(46,391)
Less: Current Maturities of Long-Term Debt	(30,000)	(30,000)
Total Long-Term Liabilities	<u>1,585,399</u>	<u>1,613,609</u>
<b>TOTAL LIABILITIES</b>	<u>1,626,424</u>	<u>1,653,690</u>
<b><u>NET POSITION:</u></b>		
Net investment in capital assets	223,034	242,422
Restricted for debt service	168,766	181,771
Unrestricted	178,782	185,985
<b>TOTAL NET POSITION</b>	<u>570,582</u>	<u>610,178</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 2,197,006</u></u>	<u><u>\$ 2,263,869</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013**

	<b>2013</b>	<b>Memo Only 2012</b>
<b><u>OPERATING REVENUES:</u></b>		
Water Revenue	\$ 256,360	\$ 283,898
Penalties Collected	11,693	8,667
Benefit Unit Sales	7,400	9,900
Reconnects/Transfer Fees	1,150	850
Other Income	4,258	3,425
<b>TOTAL OPERATING REVENUES</b>	<b>280,861</b>	<b>306,740</b>
<b><u>OPERATING EXPENSES:</u></b>		
Accounting & Legal	1,850	1,650
Plant Operations & Maintenance	78,302	47,215
Insurance	12,754	12,156
Easement	395	360
Miscellaneous	2,506	2,393
Office Supplies & Postage	3,849	3,482
Salaries	62,200	61,800
Taxes, Payroll	4,697	4,728
Travel	2,569	2,278
Telephone	2,071	2,060
Utilities	23,486	24,165
Trustee Fees	1,500	1,500
Bad Debt Expense	-	-
Amortization	6,099	6,099
Depreciation	65,608	43,476
<b>TOTAL OPERATING EXPENSES</b>	<b>267,886</b>	<b>213,362</b>
<b>OPERATING INCOME (LOSS)</b>	<b>12,974</b>	<b>93,378</b>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest Income	63	64
Interest Expense	(110,634)	(111,968)
McIntosh RWD #4 Debt Service Income	58,000	58,000
Grant Income	-	-
<b>CHANGE IN NET POSITION</b>	<b>(39,596)</b>	<b>39,473</b>
<b>TOTAL NET POSITION, Beginning of Year</b>	<b>610,178</b>	<b>570,805</b>
<b>TOTAL NET POSITION, Prior Year Adjustment</b>	<b>-</b>	<b>(100)</b>
<b>TOTAL NET POSITION, End of Year</b>	<b>\$ 570,582</b>	<b>\$ 610,178</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



**MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

	2013	Memo Only 2012
<b><u>Cash Flows from Operating Activities:</u></b>		
Receipts from Customers	\$ 283,414	\$ 301,750
Payments to Suppliers for Goods & Services	(132,644)	(102,859)
Payments to Employees & Laborers	(62,200)	(61,800)
Receipts of Customer Utility Deposits, Net of Refunds	-	(200)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>88,569</b>	<b>136,891</b>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(16,220)	(383,940)
Proceeds from lease purchase	-	-
Proceeds from long-term debt	-	-
Loan Fees	-	-
Debt Service Income from McIntosh RWD #4	58,000	58,000
Grant Income Received	-	-
Principal paid on long-term debt	(30,000)	(25,000)
Interest paid on Debt	(108,975)	(110,288)
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<b>(97,195)</b>	<b>(461,227)</b>
<b><u>Cash Flows from Investing Activities:</u></b>		
(Increase)Decrease in Restricted Assets	13,005	361,857
Interest Income	63	64
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>13,068</b>	<b>361,920</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4,443</b>	<b>37,584</b>
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	<b>28,320</b>	<b>(9,164)</b>
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	<b>-</b>	<b>(100)</b>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>\$ 32,763</b>	<b>\$ 28,320</b>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 12,974	\$ 93,378
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	65,608	43,476
Amortization	6,099	6,099
(Increase)Decrease in Accounts Receivable	2,553	(4,990)
(Increase)Decrease in Prepaid Insurance	260	(872)
Increase(Decrease) in Accounts Payable	1,075	-
Increase(Decrease) in Renters Deposits	-	(200)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 88,569</b>	<b>\$ 136,891</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Muskogee County Rural Water District No. 3 (the "District") was incorporated under the laws of the State of Oklahoma in accordance with Title Eight-Two of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within Muskogee County, Oklahoma, and provides potable water services to members of the District.

FUND ACCOUNTING

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

BUDGETARY DATA

The District is required by its Rural Development loan agreements to prepare annually an estimated budget.

ASSETS, LIABILITIES & EQUITY

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of unrestricted cash in the checking accounts.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives as follows:

	<u>Life (in years)</u>
Water System & Lines	20-50

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Office Furniture and Equipment	3-5
Maintenance Equipment	5

The dollar threshold for capitalization has been set at \$250.00.

Accounts Receivable

Accounts receivable represent customer billings for water sales, which were due and owing at the balance sheet date.

Allowance for Doubtful Accounts

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

The District is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at December 31, 2013 would not be material to the financial statements taken as a whole.

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The terms of the loan agreements require Reserve Accounts as shown in Note 4. All of the requirements have been met.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND EQUIVALENTS

Custodial Credit Risk

At December 31, 2013, the District held deposits of approximately \$34,001 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Cash in Trust Fund

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable (See Note 6). This fund is made up of four individual accounts all held by the Trustee Bank (BancFirst). The four accounts are the main account, the debt service reserve fund, the sinking fund, and the construction fund.

NOTE 5 - CAPITAL ASSETS

The following is a summary of the property, plant and equipment of the District as at December 31, 2013:

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

	Balance at Dec. 31, 2012	Additions	Deductions	Balance at Dec. 31, 2013
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Water system & lines	1,389,883	1,164,497	-	2,554,380
Office Furniture & Equipment	13,572	-	-	13,572
Automatic Meter Reading System	72,600	-	-	72,600
Maintenance Equipment	29,806	-	-	29,806
Construction in Progress	1,148,278	12,610	(1,160,888)	-
Subtotal	2,655,139	1,177,108	(1,160,888)	2,671,359
Less: Accum. Depr.	(722,717)	(65,608)	-	(788,325)
Total Capital Assets (Net of Depreciation)	\$ 1,932,422	\$ 1,111,500	\$ (1,160,888)	\$ 1,883,034

The capital asset additions included distribution system additions and the plant upgrade project which was reclassified to the water system.

NOTE 6 - LONG-TERM DEBT

Revenue Bonds Payable

On November 3, 2008, the District issued \$1,790,000.00 Revenue Bonds Series 2008, to provide funds to refund certain outstanding indebtedness of the District and to provide improvements to the water system as approved by the District. The District sold the Revenue Bonds at a purchase price of Ninety-seven per centum (97%) of the principal, plus accrued interest from the date thereof to the date of delivery, said Bonds to bear interest at the average annual rate of not to exceed Six and three-fourths per centum (6.75%).

The Series 2008 Revenue Bonds are secured by the "Pledged Revenues" (as defined in the Bond Indenture) and amounts held by the bond trustee bank. Under the terms of the Bond Indenture Agreement, the District is required to maintain certain deposits with a trustee bank. Such deposits are included as restricted assets in the Statement of Net Position.

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance at December 31, 2012	Additions	Deductions	Balance at December 31, 2013
Revenue Bonds Payable	\$ 1,690,000	\$ -	\$ (30,000)	\$ 1,660,000
Total Long-Term Debt	\$ 1,690,000	\$ -	\$ (30,000)	\$ 1,660,000
Less: Unamortized Discount on Bonds Payable	\$ (46,391)	\$ -	\$ 1,790	\$ (44,601)
Less: Current Maturities of Long-Term Debt	\$ (30,000)			\$ (30,000)
Net Long-Term Debt	\$ 1,613,609			\$ 1,585,399

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2013, are as follows:

Revenue Bonds Payable

Year Ended December 31,	Principal	Interest	Annual Payment
2014	\$ 30,000	\$ 107,400	\$ 137,400
2015	30,000	105,825	135,825
2016	35,000	104,250	139,250
2017	35,000	102,413	137,413
2018	35,000	100,575	135,575
2019-2023	220,000	468,788	688,788
2024-2028	300,000	392,063	692,063
2029-2033	405,000	282,563	687,563
2034-2038	570,000	122,273	692,273
Total	\$ 1,660,000	\$ 1,786,148	\$ 3,446,148

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted amounts are described in Note 4 above.



MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2013, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - INSURANCE COVERAGE

The District has the following insurance coverage:

- Property Coverage (Buildings and Personal Property)
- Comprehensive General Liability
- Errors or Omissions
- Employment Related Practices Liability
- Employee Dishonesty and Crime Coverage
- Worker's Compensation

NOTE 10 - WATER CONTRACT

As of October 17, 2008, the District entered into a contract with the McIntosh County Rural Water District #4 (the Purchaser) for the sale of water. The Purchaser agrees to pay the District the following amounts, on or before the tenth (10<sup>th</sup>) day of each month, for water delivered to the Purchaser (going through the Master Meter) in accordance with the agreement:

- \$4,833.33 per month which shall serve as the Purchaser's share of the monthly debt service payment
- \$3.00 Per 1,000 Gallons of Water for all gallons of water passing through the Purchaser's Master Meter

The payment of \$4,833.33 per month (\$57,999.96 annually) for debt service has been included on the Statements of Revenues, Expenses and Changes in Net Position in the Other Revenues (Expenses) Section.

Also, per the water contract, the improvements and extensions of the water supply distribution system by the District has been financed by the Revenue Bonds, Series 2008 of the District. In addition it is mutually agreed that proceeds from the aforesaid Bonds in the amount of \$125,000.00 will be

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

transferred to the Purchaser to provide improvements to its water supply system. This transfer was shown on the Statement of Revenues, Expense and Changes in Net Position in the Other Revenues (Expenses) Section.

NOTE 11 - BENEFITS

The District does not provide retirement or insurance benefits.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through March 21, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2013.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Muskogee County Rural Water District #3  
Council Hill, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the Muskogee County Rural Water District #3, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2014. The Muskogee County Rural Water District #3 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muskogee County Rural Water District #3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Muskogee County Rural Water District #3's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Rural Water District #3's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that

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is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #3's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

March 21, 2014

MUSKOGEE COUNTY RURAL WATER DISTRICT #3  
COUNCIL HILL, OKLAHOMA  
SCHEDULE OF WATER RATES AND CUSTOMERS  
DECEMBER 31, 2013

Water Rates

0 - 1,000 gallons	=	\$35.00 Minimum Bill
Next 5,000 gallons	=	\$ 5.00 per 1,000 gallons
Next 4,000 gallons	=	\$ 5.50 per 1,000 gallons
Next 15,000 gallons	=	\$ 6.00 per 1,000 gallons
Remainder	=	\$ 7.00 per 1,000 gallons

Total Gallons Pumped	46,475,100
Total Gallons Sold	36,540,800
Total Gallons Fire/Flush	1,397,001
Percentage of Loss	18.37%

Customers

The Muskogee Co. Rural Water District #3 had 338 customer meters at the close of this fiscal year.

Current membership fee is \$900 per meter sign-up.